

FDI, LABOUR MOBILITY AND WAGES

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Abstract

There is a multitude of empirical research attempting to measure the effects of FDI, including the extent of spill-overs from foreign owned to domestic firms. However, the mechanisms through which these spill-overs occur have not received as much attention. One of the potential channels for spill-overs of technological, marketing or managerial knowledge from foreign owned to purely domestic firms is labour mobility. Workers may benefit from such a spill-over process in the form of pecuniary spill-overs.

This paper analyses Finnish linked employer-employee panel data to search for evidence of potential spill-over effects through worker mobility. The data enables us to follow the accumulation of experience in foreign owned and domestic firms and to control for individual and firm characteristics when studying the effects that prior experience in a foreign owned firm has on earnings in subsequent jobs.

The estimates indicate that prior experience in a foreign owned firm has a positive effect on earnings for highly educated employees in domestic firms, over and above the effect of other previous experience. These findings are consistent with the view that workers may transfer some of the potentially superior knowledge possessed by the foreign owned firm when they move to a domestic firm and, at the same time, appropriate some of the rents created by this knowledge.

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